

November 16, 2021

Social Security: Special Minimum Benefit and Windfall Elimination Provision

Background

Social Security is a work-related, federal insurance program that provides cash benefits to workers and their eligible family members in the event of the worker's retirement, disability, or death. Workers become eligible for future benefits by working in Social Security-covered employment (e.g., workers and their employers pay payroll taxes based on covered earnings). Among other requirements, a worker generally needs 40 quarters of coverage or QCs (10 years of Social Security-covered employment) to be eligible for a Social Security retired-worker benefit. A worker may earn up to four QCs per calendar year (earnings of \$5,880 in 2021 for four QCs).

The special minimum benefit and the Windfall Elimination Provision (WEP) are two distinct provisions that may affect Social Security benefits for certain workers and their dependents. Understanding the interaction between the two provisions may be helpful to policymakers when they consider changes to these provisions.

Special Minimum Benefit

Social Security's special minimum benefit provision, also known as the Special Minimum Primary Insurance Amount (PIA), is an alternative benefit formula that increases benefits paid to workers who had low earnings for many years, and to their dependents and survivors. The Special Minimum PIA is based on the number of years a person has worked with earnings at or above a specified threshold, whereas the regular benefit formula is based on a worker's average lifetime earnings. The worker receives the higher of the two benefits (but not both).

Under the Special Minimum PIA, a person earns a year of coverage if the worker has covered earnings equal to or greater than 15% of the old law contribution and benefit base. The earnings required for a year of coverage are \$15,930 in 2021. In 2021, for a worker with 11 years of coverage, the Special Minimum PIA would be \$43 per month. It increases by about \$45 per month for each additional year of coverage; a person with 30 or more years of coverage would qualify for a Special Minimum PIA of \$898 per month.

The Special Minimum PIA has virtually no effect on the benefits paid to today's new retirees. Under current law, it grows with price levels, whereas the regular benefit is linked to wages. Because wages generally grow faster than prices, the Special Minimum PIA affects fewer beneficiaries every year. The Social Security Administration (SSA) estimates that the provision would have no effect on workers turning 62 in 2022 or later

because their regular benefits would be higher than the Special Minimum PIA.

As of December 2020, about 28,456 of the roughly 65 million Social Security beneficiaries qualified for the special minimum benefit.

Windfall Elimination Provision (WEP)

The WEP is a modified benefit formula designed to remove the unintended advantage, or "windfall," of the regular progressive benefit formula for certain retired or disabled workers (and their dependents) who spent less than full careers in covered employment and who are also entitled to pension benefits based on earnings from jobs not covered by Social Security (e.g., certain state and local government employees). The WEP applies to most beneficiaries who had both fewer than 30 years of substantial earnings in Social Security-covered employment and a pension from noncovered work.

Under the WEP, a worker receives a year of coverage if he or she has covered substantial earnings at or above 25% of the old law contribution and benefit base. The substantial earnings required for a year of coverage are \$26,550 in 2021. For people who become eligible for benefits in 2021 and have 20 or fewer years of substantial earnings, the WEP reduces the Social Security monthly benefit by \$498 (subject to other benefit adjustments). The monthly WEP reduction decreases by about \$50 for each additional year of substantial earnings; a worker with 30 or more years of substantial earnings is no longer subject to the WEP.

As of December 2020, about 1.9 million beneficiaries (or about 3% of all Social Security beneficiaries) were affected by the WEP.

Beneficiaries Affected by WEP Could Receive a Higher Special Minimum PIA

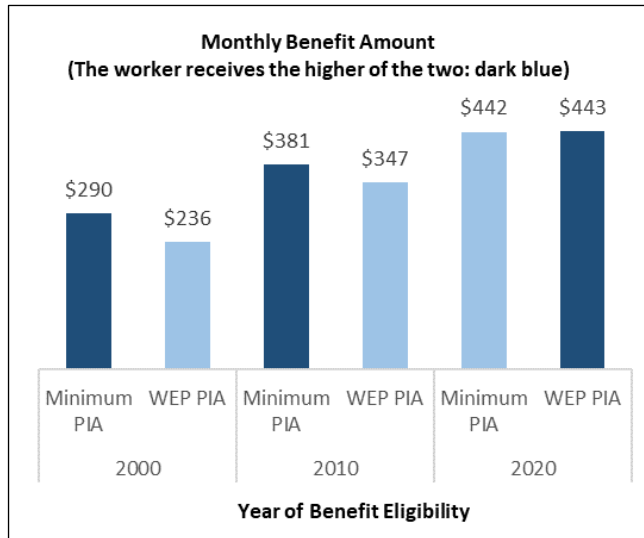
The Special Minimum PIA does not have a WEP provision, so a beneficiary who has their retired worker benefit reduced by the WEP may receive a higher special minimum benefit. Therefore, the special minimum PIA has partly reversed the impact of the WEP reduction for beneficiaries who are affected by both provisions.

Figure 1 displays the Special Minimum PIA and WEP PIA for three hypothetical workers who would be affected by the WEP. Each worker is assumed to have worked 20 years in covered employment and received the substantial earnings amount required by the WEP each year. For the workers who became eligible for Social Security benefits in 2000 and 2010, the Special Minimum PIA would be greater than WEP PIA; thus, both workers would receive the higher

special minimum benefit. Because of the diminishing effect of the special minimum benefit, the worker who became eligible in 2020 would receive a higher WEP PIA.

Figure 1. Monthly Special Minimum PIA and WEP PIA for Hypothetical Workers Affected by the WEP

Assumes the individual worked in covered employment for 20 years from age 41 to 60 and earned exactly 25% of the old law contribution and benefit base annually in those years



Source: CRS and Social Security Administration, <http://www.socialsecurity.gov/cgi-bin/smt.cgi>.

Notes: The Special Minimum PIA in each year was the amount effective in the December of the prior year. Workers' WEP reductions are assumed to not be affected by other adjustments. The benefit level is measured when the worker turns age 62, and no early retirement reduction is applied.

The Diminishing Effect of the Special Minimum PIA and Its Relationship with the WEP

The impact of the Special Minimum PIA has diminished over time as the number of Social Security beneficiaries eligible for the provision decreased from 205,031 in 1991 (about 0.5% of all beneficiaries) to 28,456 in 2020 (less than 0.1% of all beneficiaries).

SSA has published three actuarial notes regarding the diminishing effect of the special minimum benefit on beneficiaries in 2000, 2013, and 2020 (see **Figure 2**). In 2000, among the roughly 95,800 families (estimated based on 1% sample) who were receiving the Special Minimum PIA, about 11% were affected by the WEP. This percentage increased to 39% in 2013 and to 71% in 2020. The proportion of the special minimum benefit population affected by the WEP increased over the past two decades, mainly because the Special Minimum PIA has affected very few newly eligible beneficiaries whose benefits were based on the regular benefit formula (those not affected by the WEP) since 2000.

Proposals to Change the Special Minimum Benefit

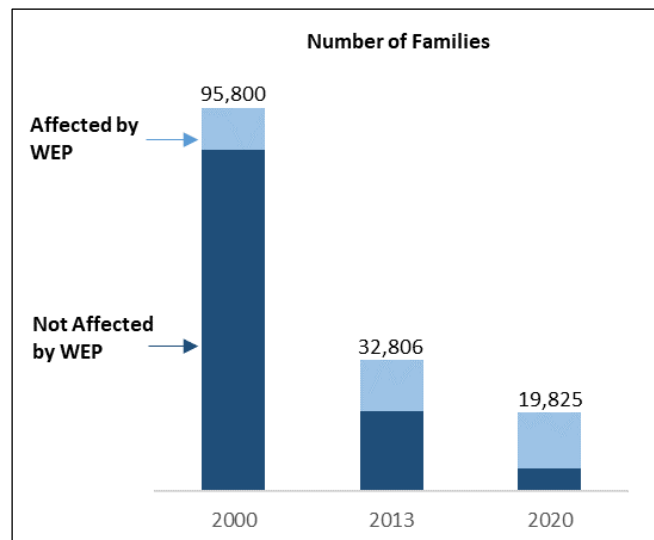
Proposals to expand eligibility for the special minimum benefit usually would lower the amount of earnings

required for each year of coverage (e.g., the amount needed for four QCs) and increase the monthly benefit amount to a level above the poverty line (e.g., 125% of the federal poverty guideline). These proposed changes could generally allow more beneficiaries to become eligible for the Special Minimum PIA and receive a larger benefit amount compared to current law. Without a WEP-like adjustment to the proposed special minimum benefit, the following may occur:

- More beneficiaries affected by the WEP may become eligible for the proposed improved Special Minimum PIA and receive a higher benefit amount.
- As more beneficiaries become eligible for the proposed improved Special Minimum PIA, the percentage of those beneficiaries who would be affected by the WEP may gradually decrease to the 2000 level (11%) or lower.

The special minimum benefit was enacted in 1972 (P.L. 92-603). The provision was designed to increase benefit adequacy among full-time, full-career minimum wage earners, and to help those workers reduce dependence on means-tested cash assistance. The provision was also designed to avoid providing windfalls to persons with little or sporadic attachment to the covered workforce. If the objective remains the same today, it may be reasonable to make beneficiaries affected by the WEP ineligible to receive the proposed expanded Special Minimum PIA.

Figure 2. Number of Families Receiving the Special Minimum PIA by WEP Status, 2000, 2013, and 2020



Source: Social Security Administration, Actuarial Note No.143, 154, and 162 (by Craig A. Feinstein).

Notes: The number of families in 2000 is estimated based on 1% sample. A family may include one or more beneficiaries.

Additional Information

CRS Report R43615, *Social Security: Minimum Benefits*

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